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MEMORANDUM

October 23, 1952

TO : O/RR - Robert Amory, Jr.

FROM : OIR - Philip Trezise *PTT*

SUBJECT: CIA Report, Soviet Bloc Rubber Position, October 1952

1. The document submitted to OIR for concurrence consists, in its present form, of a 22 page-report (including revised pages 4-9), Appendices A-E (including a new Appendix B) and five USAF mosaics of synthetic rubber plants in the USSR. It is our understanding that this document is being editorially reviewed, but not substantively revised. We also understand that Appendix A, now entitled "Sources of Information," will be rewritten.

a. Accordingly, OIR is disregarding Appendix A and formulating its position with reference to the remainder of the draft. It is assumed that, in the course of editorial review, any statements in the draft which reiterate the doctrine set forth in Appendix A would be appropriately modified.

b. The subject report, apart from the present Appendix A, will be referred to as CIA DRAFT-3. For convenience, two other documents which were prepared during the past several months will be referred to as follows:

i. CIA DRAFT-2: CIA, Rubber and Rubber Fabrication in the USSR and Satellites (Second Draft), 6 August 1952, including Appendices A-J inclusive.

ii. JOINT DRAFT: Soviet Bloc Rubber Position September 1952, including Appendices A-F, prepared by Messrs. [REDACTED] (CIA) and Wiedemann (OIR).

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2. OIR's position regarding CIA DRAFT-3 is partly determined by our conception of what should be done to produce an agreed report on the Soviet Bloc rubber situation. Since there appears to be some misunderstanding about the work to be done after the JOINT DRAFT had been prepared, we would like to restate our views on this matter.

a. As soon as OIR determined that no rubber quota discussions were pending, we strongly recommended that O/RR and OIR investigate the most important aspects of the rubber problem rather than attempt to produce an agreed paper without doing the requisite research. This recommendation was made before the JOINT DRAFT was prepared, it was frequently alluded to in the JOINT DRAFT itself, and it was repeated after the JOINT DRAFT was suspended.

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b. [REDACTED]

[REDACTED], we assumed that the JOINT DRAFT would be used as the basis for planning how O/RR and OIR could cooperate most effectively in doing the necessary research on those aspects of the rubber problem which required further study. We thought you might want to begin this joint effort after [REDACTED] had returned [REDACTED] but indicated our willingness to begin sooner if you so desired. Since we received no word of your plans, we assumed that this matter was being held in abeyance. We did not think that O/RR had abandoned the underlying principle of the JOINT DRAFT -- namely, that it would be used as the basis for the cooperative research which had to be done before a sound analysis of the Soviet Bloc rubber position could be produced. We certainly did not expect O/RR to prepare a unilateral revision of the JOINT DRAFT without even informing OIR.

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c. We regret that this misunderstanding occurred. However, the manner in which CIA DRAFT-3 was prepared forces us to conclude that the Chemicals Branch of O/RR has no desire to investigate jointly the many unsolved problems which unavoidably arose in preparing CIA DRAFT-2 and the JOINT DRAFT.

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3. OIR does not concur with the CIA DRAFT-3 for essentially the same reasons that were given for not concurring with CIA DRAFT-2. In brief, these reasons are as follows:

a. Firstly, practically all of the important constituent estimates in CIA DRAFT-3 (e.g. Tables II, III, IV, IVa, VII, VIII, IX) are not supported by relevant evidence or convincing analysis. In most cases, the report does not set forth explicitly what facts were used and how they were used to derive the O/RR estimates. When the report does disclose its methodology, it either substitutes assumption for analysis or it presents the same arguments as CIA DRAFT-2 which were criticized in detail in discussions with O/RR analysts last August.

b. Secondly, the attempts to "disprove" the OIR estimates appear to be fundamentally misguided. The OIR estimates in the JOINT DRAFT were presented primarily for the purpose of indicating alternative approaches which, with further research, might yield more credible results than the O/RR estimates -- particularly if the latter estimates could not be adequately documented. The OIR estimates were also intended to show specifically what points required further investigation and what provisional conclusions seemed warranted in the meantime. The very considerable effort which O/RR devoted to "disproving" these estimates seems to be more concerned with demonstrating the well-known fact that difficulties arise whenever quantitative estimates on the Soviet economy are attempted, rather than contributing to the production of a firm analysis of the Bloc's rubber position. We welcome any criticism of OIR estimates that is valid and germane; and we believe that all estimates, regardless of who prepares them, should be subject to critical review before they are accepted. However, much of the criticism in CIA DRAFT-3 seems to miss the point at issue (e.g. the discussion on Soviet synthetic rubber output in 1939) and the underlying reasoning is often unconvincing (e.g. the discussion of consumption by non-transportation users, the critique of the non-plant method of estimating tire production). We cannot agree, therefore, that CIA DRAFT-3 has disposed of the problems which were discussed last August and explicitly recognized in the JOINT DRAFT.

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4. We doubt that a written point-by-point critique of CIA DRAFT-3 would be a fruitful way of proceeding at this juncture. The OIR analysts who have been concerned with the rubber project are, of course, willing to discuss any part of CIA DRAFT-3 and to cooperate in a joint research effort within the limits determined by other commitments. Meanwhile, the following comments on the three main parts of CIA DRAFT-3 are submitted:

a. Production: The chief problem continues to be the improvement of pre-existing estimates of Soviet synthetic rubber output -- either by more adequate plant analysis, by more research on the main points brought out by the aggregate method, or, preferably, by following both approaches on a collaborative basis. We think that the other production estimates (e.g. natural and reclaimed rubber in the USSR, and synthetic and reclaimed in the Satellites) also need further buttressing, but certainly agree that for immediate purposes these estimates need not be re-investigated.

i. The latest O/RR estimates of Soviet synthetic rubber output in 1937-1940 are a re-statement of those in the original Moscow Embassy despatch of 1940. These estimates are not "virtually unimpeachable," as O/RR now claims to have demonstrated, but are subject to two possible revisions -- either upward as first pointed out in the Moscow Embassy Despatch No. 1026 or downward as outlined in Appendix A of the JOINT DRAFT. The estimates now presented by O/RR are admittedly plausible and, in fact, were used by OIR in the past. But the discussion in CIA DRAFT-3 does not establish that its interpretation of the basic data is any more plausible than either of the alternatives considered and fails to take account of the available information which might help to resolve the problem.

ii. The main purpose of determining Soviet synthetic output in 1937-1940 is to provide an aid in estimating production in 1946-1951. Some of the critical points that have to be investigated are whether the 1950 output goal was actually met, whether production declined from 1945 to 1946, and how much output increased in 1947 over the preceding year. CIA DRAFT-3 makes no attempt whatsoever to investigate any of these points.

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b. Trade: The trade data in CIA DRAFT-3 are the same as those presented in CIA DRAFT-2. During the discussions in August, it was agreed that the import figures in the Rubber Statistical Bulletin had to be cross-checked against information on exports and reexports of individual countries. It was particularly important to analyze the figures for total exports from Belgium, Netherlands and Germany since the figures in Appendix D might include transshipments previously recorded by the original importing country. OIR received additional information from Belgium and the Netherlands at the time the JOINT DRAFT was completed, but prepared no revised table because it was not yet possible to include the correction of the German data. The delay in preparing Table VI in the JOINT DRAFT was explicitly noted (on page 9) and when that draft was suspended we assumed that any further work on the trade data would take the partially revised Appendix D as its point of departure.

i. Although mindful of the difficulties involved, we urged that the subject of intra-bloc trade be investigated -- especially since it appeared that no independent estimate of Satellite consumption could be made and, for immediate purposes, it would have to be assumed that the amount of rubber used for current consumption in the Satellites was equal to the net new supply in each year. The most important aspect of this intra-bloc trade problem concerned East German shipments of synthetic rubber to the USSR. Table VII of the JOINT DRAFT was a step in the right direction and we had hoped that a firmer estimate would be forthcoming. However, we find that CIA-DRAFT-3 contains no revision of this table and reverts to the questionable position taken in CIA-DRAFT-2.

ii. We have also repeatedly urged that no forecast of 1953 imports should appear in any paper to be submitted [REDACTED] Such estimates pre- 25X1X7
judge the rubber quotas which the intelligence report is supposed to help to determine and they can easily undermine the position of the US negotiator [REDACTED]

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[REDACTED] We have no objection to extending the entire analysis of the

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rubber problem to cover the calendar year 1952, and we agree that it might be useful to indicate, in guarded terms and for illustrative purposes, what the Soviet Bloc rubber position would be if 1953 shipments were some minimum figure or roughly equal to some former quota. But we emphatically do not agree that the intelligence report should forecast the 1953 actual shipments.

c. Consumption: Section IV of CIA DRAFT-3 does not take account of the principal objections raised in the Interim Report of the Working Group on Soviet Bloc Rubber Consumption, 15 August 1952. Until O/RR presents a well-documented estimate of Soviet tire production and at least takes account of the points previously raised regarding the calculation of rubber consumed in the manufacture of tires, we cannot accept the O/RR estimates of rubber consumption in the transportation category. Similarly, until O/RR presents convincing evidence that the Soviet consumption pattern is in fact analogous to that in other countries, we cannot accept an estimate which simply assumes that consumption in the non-transportation category is one-third of the total and makes no serious effort to calculate non-transportation consumption by using what is known or can be inferred about the postwar Soviet economy.

OIR:DRS:HWiedemann:mw

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